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RECEIVED: 01/26/15, 12:13:35 PM

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6/24/14 Zacks Inv. Res. (Pg. Unavail. Online)  
2014 WLNR 17135108

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June 24, 2014

Wisconsin Energy to Buy Integrys to Expand Midwest Operations - Analyst Blog

Zacks Equity Research

Jun 24, 2014

A premier diversified utility Wisconsin Energy Corporation( WEC ) has inked a definitive agreement with Integrys Energy Group, Inc.( TEG ) to acquire the latter. Wisconsin Energy will invest a total of \$9.1 billion, consisting of cash, stock and assumed debt. Subject to customary approvals, the deal is expected to close in the summer of 2015. The combined entity will be named WEC Energy Group, Inc.

What Wisconsin Energy Offers?

Per the agreement, the shareholders of Integrys Energy will receive a total of \$71.47 per Integrys Energy share, which includes a combination of 74% stock and 26% cash. The shareholders of Integrys Energy will receive 1.128 shares of Wisconsin Energy common stock and cash of \$18.58 for every Integrys Energy share they own.

Post transaction, the shareholders of Wisconsin Energy will obtain 72% ownership of WEC Energy Group while Integrys Energy will hold the remaining 28% stake.

Leading Midwest Utility Play in the Making

If approved, WEC Energy Group will be headquartered in Milwaukee, WI, besides having three other headquarters in Chicago, Green Bay and Milwaukee.

WEC Energy Group, through its units We Energies, Wisconsin Public Service, Peoples Gas, North Shore Gas, Minnesota Energy Resources and Michigan Gas Utilities, will serve nearly 4.3 million electricity and natural gas customers in the Midwestern states of Wisconsin, Illinois, Michigan and Minnesota. In addition, WEC Energy Group will obtain a 60% stake in American Transmission Company, LLC.

The combined entity's power generation capacity will be 8,803 megawatt (MW). It will operate around 71,000 miles of electric distribution lines and over 44,000 miles of gas transmission and distribution lines.

The regulated rate base growth for the combined unit is estimated at \$16.8 billion for 2015.

The Benefits

Both the utilities, Wisconsin Energy and Integrys Energy along with their customers and investors stand to benefit from the proposed transaction. The consolidated WEC Energy Group will bring about economies of scale with the ability to efficiently execute long-term growth plans and focus on strategic objectives, while improving shareholder value. In fact, the deal is expected to be accretive to Wisconsin Energy's earnings in the first full calendar year after closing.

Currently, Wisconsin Energy has no operations in Illinois. The proposed deal will help to expand operations in the state and unlock future prospects.

As both Wisconsin Energy and Integrys Energy have similar lines of operations and a complementary footprint, the combined unit will be better able to meet the increasing demand for utility services in the region.

Wisconsin Energy is currently focused on improving its aging distribution infrastructure. The company plans to invest a substantial part of its \$6.5-\$7.1 billion capex budget on upgrading and modernizing its utility delivery infrastructure over the 2014-2023 frame. Post transaction, WEC Energy Group will follow Integrys Energy's five-year capital investment plan worth up to \$3.5 billion under the infrastructure and operational initiatives. The joint infrastructure development efforts will enable WEC Energy Group to provide reliable services to its customers.

The dividend policy of WEC Energy Group is expected to be accretive to all shareholders in the future. Until the deal closes Wisconsin Energy plans to maintain its existing dividend policy with an annual increase of 7%-8%. The dividend payout is expected to increase post-merger, in line with WEC Energy Group's dividend policy.

#### Large Deals in the Utility Sector

An inorganic growth strategy continues to act as the easiest way for utilities to expand their scale of operations. In Apr 2014, Exelon Corporation ( EXC ) entered into a definitive agreement to acquire Pepco Holdings, Inc. ( POM ) for around \$7 billion. Exelon plans to close the transaction in the second half of 2015, subject to the necessary approvals.

#### Zacks Rank

Wisconsin Energy currently has a Zacks Rank #2 (Buy).

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Company: AMERICAN TRANSMISSION COMPANY LLC; EXELON CORP; INTEGRYS ENERGY GROUP INC; MICHIGAN GAS UTILITIES CO EMPL ST PUR&SA; MINNESOTA ENERGY RESOURCES CORP; NORTH SHORE GAS CO; PEOPLES GAS LIGHT AND COKE CO (THE); PEPCO HOLDINGS INC; WISCONSIN ELECTRIC POWER CO; WISCONSIN ENERGY CORP; WISCONSIN PUBLIC SERVICE CORP

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Language: EN

Other Indexing: (WEC Energy Group Inc.; acquirePepco Holdings Inc.; utilityWisconsin Energy Corporation; withIntegrys Energy Group Inc.)

Keywords: (WEC); (Analyst Blog); (POM); (EXC); (TEG)

Word Count: 671

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